

VZCZCXR06836

RR RUEHCHI RUEHDT RUEHFK RUEHHM RUEHKSO RUEHPB

DE RUEHHI #1090/01 1281046

ZNR UUUUU ZZH

R 081046Z MAY 06

FM AMEMBASSY HANOI

TO RUEHC/SECSTATE WASHDC 1780

INFO RUEHHM/AMCONSUL HO CHI MINH CITY 1082

RUEHZS/ASEAN REGIONAL FORUM COLLECTIVE

RUEHZU/APEC COLLECTIVE

UNCLAS SECTION 01 OF 03 HANOI 001090

SIPDIS

SENSITIVE

SIPDIS

E.O. 12958: N/A

TAGS: [ECON](#) [PGOV](#) [KCOR](#) [VM](#)

SUBJECT: PMU-18 Corruption Scandal: Donor Response

HANOI 00001090 001.2 OF 003

SENSITIVE BUT UNCLASSIFIED. DO NOT POST ON THE INTERNET.

REF: Hanoi 771 and previous

¶11. (SBU) Summary: Following the break of the Project Management Unit 18 (PMU-18) corruption scandal involving a substantial amount of Overseas Development Assistance (ODA), bilateral and multilateral donors met to share reactions and discuss a coordinated response. Donors agreed: that corruption should be an agenda topic at the mid-year Consultative Group (CG) meeting; to devise strategies to protect better their ODA investments; and, to develop a common approach to the "small envelope culture." Significant momentum exists in Vietnamese society to address corruption, and donors expect stronger statements from the GVN after the conclusion of the 10th Party Congress. Corruption remains a complex issue; donors exchanged ideas on controlling it, and shared examples of recent incidents. Post will continue working with other donors to ensure proper oversight of ODA and to encourage the development of a transparent and accountable system in Vietnam. End Summary.

Donor Reaction and A Way Forward

¶12. (SBU) The Danes convened an informal group of multilateral and bilateral donors to follow upon the April 3 Ambassadors' Donor Coordination Group meeting with a more detailed discussion of how to seek to assist the GVN in combating corruption. Present were a mixture of Ambassadors, development and economic sections staff from the British, Canadian, Danish, European Commission, French, Netherlands, New Zealand, Norwegian, Swedish and Swiss Missions, as well as the United Nations Development Programme (UNDP), Asian Development Bank (ADB) and International Monetary Fund (IMF). ECON/C and EconOff attended. (Note: The World Bank was not present, but supports the group's agenda. End Note.) Donors agreed that corruption should be on the agenda at the Consultative Group (CG) meeting in June, and explored how to incorporate corruption into the agenda and prepare the GVN for a productive discussion. The UK Department for International Development (DFID) and the World Bank agreed to take the lead on this issue. Donors also recognized a need to devise strategies to protect better their ODA projects, nominated Sweden to head the effort, and agreed that the GVN should be alerted to the potential impact of corruption on ODA. Swiss Ambassador Benedict de Cerjat noted that the Office of the Government has requested assistance in establishing a national anti-corruption steering committee to be chaired by the Deputy Prime Minister, which will present an opportunity to press the issue. Finally, Denmark and the EC agreed to

lead an effort to develop a common approach to Vietnam's "small envelope culture."

The Media and Vietnamese Reactions

¶3. (SBU) Donors noted that there is significant momentum in Vietnamese society to address corruption, and anticipate that stronger anti-corruption statements will come from the GVN after the Party Congress concludes around April 26. Recently arrived Asia Development Bank (ADB) Country Director Ayumi Konishi expressed concern that in covering the PMU-18 scandal, the media has portrayed this sort of project as the problem, rather than focusing on the more general lack of checks and balances. EC Ambassador Markus Cornaro commented that several local contacts have told him that the World Bank's positive statements regarding the Government's response to the scandal are naive, and that donors should push for concrete action. (Note: The World Bank missed the meeting because of a scheduling error. End Note.) Association pour le Developpement des Echanges en Technologie Economique et Financiere (ADETEF) Director Emmanuel Ly-Batallan repeated that he has learned that Transportation Minister Dao Dinh Binh, who resigned under pressure following the scandal, was generally disliked, and questioned whether the GVN is prepared to hold other ministers similarly accountable.

Anti-Corruption Policies

¶4. (SBU) All donors said they were signatories to the OECD Anti-Bribery Convention, which makes a bribe paid by one of their multinationals to a public official in a developing country for a public works contract a punishable offense. Many have also devised codes of conduct for their grant aid recipients based on OECD principles. Common practices

HANOI 00001090 002.2 OF 003

include: anti-corruption clauses in grant contracts; requirements to report any suspected corruption cases to appropriate oversight agencies; mandatory investigations into any suspected corruption case; freezing of funding; and, fund recovery in corruption cases. The Danish International Development Agency (DANIDA) requires all aid recipients to go through anti-corruption training, and solicits confidential reporting of suspected corruption. The EC has tight auditing procedures of both budget support and grants, and reviews all projects under Euro 5,000 (approximately USD 6,175); France manages the funds for all small projects, while Norway hires independent auditors. Cornaro expressed concern that this tight oversight undermines Vietnamese ownership and hampers the development of more robust control systems.

A Problem with Many Facets

¶5. (SBU) Donors recognize the need to take different approaches to corruption in budget support and grants. In the case of budget support, donor funds are co-mingled with those of the Government, and the focus is on strengthening the Government's systems and creating transparency rather than on fund recovery. Donors seek to recover misused grants. De Cerjat noted that it is also useful to differentiate between "big" corruption and "little" corruption. He recounted that when he arrived to post, Vietnamese journalists expected to receive "small envelopes" to attend press conferences. These Vietnamese "traditions" may be harder to eradicate than larger fraud cases. Donors agreed that they should have the same approach on this issue, that is, refuse to pay. (Comment: We have heard similar stories of other bilateral and multilateral for getting GVN officials to attend seminars. It is surprising that this is still an issue for some of our donor community colleagues. End Comment.)

16. (SBU) Netherlands Deputy Head of Mission Bengt van Loosdrecht noted that while anti-corruption is high on the political agenda, there are only limited tools to address it. In his opinion, there is more focus on the management of the perception of corruption than on tackling the issue itself. De Cerjat commented that building monitoring systems takes many years and will not have an impact in the short term. It is therefore important to look for tools that will be effective in the immediate future. The ADB's Konishi noted that in order to truly address corruption, the civil service needs to be reformed, including the pay structure. He added that the lack of proper accounting procedures is a major obstacle to transparency, and that enterprises need to be given incentives to keep clean books. Currently it is cheaper to pay off government officials than to pay taxes. British and French representatives commented that the fact that corruption is a capital punishment offense acts as a deterrent to their pursuit of some serious cases. This is not unique to Vietnam.

Donor Experiences with Corruption

17. (SBU) Given endemic corruption in Vietnam, there have been relatively few cases of corruption involving donor projects until now. The PMU-18 and PMU-5 cases, however, involve a significant amount of donor money. A Danish investigation found that 60 percent of funds in which projects on a general principle have not been properly documented. Konishi said he is reasonably comfortable about the integrity of ADB projects, and that out of 18 cases referred to the internal investigation unit since 1993, only one was found to be serious, while the others involved minor instances of misreporting.

18. (SBU) Cornaro said that recently corruption has been found in two EC projects. A case of double-invoicing and a potential conflict of interest of family ties in a printing contract at the Ministry of Health (MOH) resulted in an investigation by the European Anti-Fraud Office (OLAF). While the GVN initially convinced OLAF that there had been no fraud, the EC Mission in Vietnam persisted, and the case concluded with MOH covering the disputed amount. The GVN has acknowledged "fishy intent" in a case at the Ministry of Agriculture and Rural Development (MARD), and has agreed to restore Euro 100,000 (approximately USD 123,600) of misspent funds. Cornaro said that the former MARD Project Director has offered to pay back the money to the EC in cash, but the EC has refused, maintaining the recovery should go through proper MARD channels and procedures.

19. (SBU) Sweden has been working with four other countries

HANOI 00001090 003.2 OF 003

to support the Government Inspectorate. They recently fired two GVN inspectors whose official final report contradicted their preliminary report of apparent corruption by exonerating the parties under investigation. Sweden has heard unofficially that the Inspector General and several Vice-Inspectors will likely be replaced after the Party Congress as a result.

MARINE